

# GROWTH TREND OF FOREIGN DIRECT INVESTMENT (FDI) IN INDIA: AN ANALYSIS

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**Abstract :** Foreign Direct Investment (FDI) is preferential external source of finance for any country including Indian economy and it is non-debt creating and non-volatile in nature. Foreign Direct Investment (FDI) refers to investments made by a company or individual in one country into business interests located in another country. FDI serves as an engine of growth for any developing country including. Since 1991, Indian economy has adopted measures to increase the foreign investment in a country, due to which FDI growth has been taken place. Keeping in above backdrop, the present research paper is an attempt to understand and analyse the growth trend of FDI in India. The present study is based on the secondary data which have been collected from various sources. The study considers the time period from 2000 onwards.

**Keywords:** - FDI, LPG, Service Sector and Indian Economy

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## 1.0 Introduction

Foreign Direct Investment (FDI) is preferential external source of finance for any country including Indian economy and it is non-debt creating and non-volatile in nature. Foreign Direct Investment (FDI) refers to investments made by a company or individual in one country into business interests located in another country. Foreign Direct Investment (FDI) plays an important role in the developing economies in general and Indian economy in particular because of its growth enhancing factors such as transfer and up gradation of technology; improves skills as well as managerial capabilities, boost exports, improve quality of goods and services and most important create jobs. Not only developing but also emerging and transition economies are also looking towards FDI for their economic development as it is non-debt creating source of finance. Since independence, Indian economy adopted various strategies to manage with different economic issues at various levels. As economy moves on development path, service sector bypasses the industrial and agriculture sector. Economic reforms of 1991 inform of Liberalization, Privatization and Globalization (LPG) have stimulated FDI inflows in India that have occupied the gap between domestic saving and investment. Since then, the government is in the process of opening more sectors for foreign investors in general and foreign direct investment in particular.

Keeping in mind the above backdrop, the present research paper will understand and analyse the growth trend of FDI in India. The section II is dedicated on literature review: positive and negative effects of FDI. Section III describes the objectives of the study & research methodology. Section IV will analyse the Growth and trend of FDI in Indian economy Last section V concludes the study with policy implications.

## 2.0 Literature Review: Postive And Negative Effects Of FDI

There is no dearth of literature on the present issue of FDI. There are dichotomous views; whether FDI is boom or bane for host countries? FDI has its own merits and demerits. Following arguments have been drawn from the available literature:

### 2.1 Positive Effects of FDI

- **Economic Growth and Capital Formation:** In the 1960s and 1970s scholars posited that FDI could serve as a catalyst for economic growth in any developing countries by supplementing domestic savings and facilitating capital formation.
- **Technology Transfer and Productivity Spillovers:** The transfer of technology and managerial expertise through FDI was recognized as a significant benefit.
- **Employment Generation and Human Capital Development:** The establishment of foreign enterprises often led to the creation of new employment opportunities, which in turn contributed to the development of

human capital in the host countries.

- Infrastructure Development: The establishment of foreign enterprises often necessitated the development of infrastructure such as roads, ports, and communication networks. This infrastructure development not only supported the operations of foreign firms but also benefited the broader economy by improving connectivity and access to markets.

## 2.2 Negative Effects of FDI

- Crowding Out Domestic Investment: FDI can negatively affect domestic firms' productivity due to market share loss, a phenomenon termed the "crowding out" effect.
- Limited Technology Transfer: While FDI is expected to bring advanced technologies, some studies suggest that foreign firms may use less modern technology in host countries, limiting positive spillovers to domestic enterprises.
- Economic Inequality: FDI can exacerbate economic disparities. FDI has been associated with reduced household consumption and increased inequality due to the displacement of domestic firms.
- FDI contributes to Environmental Harm: While FDI is expected to bring technologies which can contribute in country's GDP but it may be possible that FDI contributes to environmental damage.

Beside above arguments in form of positive and negative effects of FDI for a country, the growth model of Asian Tigers has proved the importance of FDI in economic growth as follows:

- Singapore's Economic Development Board actively sought FDI, focusing on sectors like electronics and petrochemicals and became a hub for multinational corporations.
- South Korea combined FDI with strategic industrial policies, particularly during its Heavy and Chemical Industry (HCI) drive in the 1970s. This approach led to the development of globally competitive industries and technological advancements.
- Taiwan invested in human capital and Research & Development, attracting FDI in high-tech industries.
- Hong Kong has historically embraced a "positive non-interventionism" approach, minimizing government interference in business operations while ensuring a conducive environment for market activities.
- China's approach to foreign direct investment (FDI) has evolved significantly since the late 20th century, transitioning from a focus on attracting foreign capital to becoming a major global investor.

## 3.0 Data Source And Objectives Of The Study

The present study is of analytical in nature and based on secondary data, which has been collected from various FDI Factsheets published by Department for Promotion of Industry and Internal Trade (DPIIT), Govt. of India and World Investment Report of UNCTAD (United Nations Conference on Trade and Development). The present study considers the time period from the year 2000 onwards. Available data have been processed and presented in form of suitable tables and graphs. The following are the key-objectives of the present study.

- To analyze growth trends of FDI inflows in Indian economy.
- To identify country-wise FDI inflows.
- To understand sector-wise FDI distribution.
- To analyze region-wise inflows within India
- To compare India's position in the World in FDI Inflows

## 4.0 Growth & Present Status of Foreign Direct Investment (FDI) in India: An Analysis

The present section is divided into two parts. Part-a is based on the data and part-b is based on the discussion or analysis.

### 4.1 Growth and Present Status of FDI in India:

**Table 1: Country wise FDI Equity Inflows in India (April 2000 to March 2025)**

Country	FDI Inflow (US\$ Million)	Share (in percentage)
Mauritius	180,191	24.7%
Singapore	174,886	24.0%
USA	70,650	9.7%
Netherlands	53,302	7.3%
Japan	44,396	6.1%
UK	35,887	4.9%
UAE	22,848	3.1%
Cayman Islands	15,637	2.1%
Germany	15,112	2.1%
Cyprus	14,653	2.0%

Source: FDI Factsheets published by Department for Promotion of Industry and Internal Trade (DPIIT), GoI

**Table 2: Status of Top Sectors Receiving FDI in India**

S. No.	Sector	FDI Share (%)	Reason of Receiving FDI
1.	Service Sector	16.3%	Sector includes finance, banking, insurance, outsourcing (BPOs) and real estate services
2.	Computer Software & Hardware	15.2%	India is a global IT hub. Major global tech firms such as Google, Microsoft and Apple have invested heavily.
3.	Trading	6.5%	India's emergence as a consumer market. Global retail and wholesale investors, including giants like Amazon and Wal-Mart.
4.	Telecommunication	5.5%	High mobile and internet penetration attracted FDI in telecom infrastructure, spectrum.
5.	Automobile Industry	5.2%	India is a manufacturing base for many global auto companies viz. Maruti Suzuki, Hyundai, Toyota. EV investments also rising recently.
6.	Construction (Infrastructure)	5.0%	Includes roads, ports, airports, and urban infrastructure. FDI in PPP models contributed.
7.	Construction Development (Townships, Housing, etc.)	3.7%	Due to India's urbanization push and affordable housing initiatives (PMAY).
8.	Chemicals (other than Fertilizers)	3.2%	Broad industrial use and demand pharmaceuticals, textiles and FMCG.
9.	Drugs & Pharmaceuticals	3.2%	India is exporting generics and vaccines. Strong foreign investment in R&D
10.	Non-Conventional Energy	3.0%	Considerable FDI in renewables like solar and wind
11.	Other Sectors	33.2%	Covers diversified areas like food processing, mining, textiles, electronics, logistics etc.

Source: FDI Factsheets published by Department for Promotion of Industry and Internal Trade (DPIIT), GoI

**Table 3: Top State/UT Attracting FDI in India (April 2000 – March 2025)**

S. No.	State/UT	FDI Inflows (US\$ million)	Share (%)	Reasons
1.	Maharashtra	88,676	12.2%	Mumbai is Financial capital of India & Headquarters of major corporations
2.	Karnataka	57,650	7.9%	Bengaluru is IT and start up hub
3.	Gujarat	44,912	6.2%	Industrialized state, home infrastructure and ports
4.	Delhi	37,807	5.2%	National Capital Region includes Gurgaon and Noida and Major centre for services
5.	Tamil Nadu	14,619	2.0%	Strong in automobiles,electronics, textiles, Chennai is a manufacturing and export hub
6.	Haryana	12,877	1.7%	Gurgaon (NCR) is major centre for IT, BPOs and auto.
7.	Telangana	10,768	1.2%	Hyderabad is fast-emerging IT Pharma hub
8.	Rajasthan	2,718	0.4%	Industrial zones and solar energy potential
9.	Jharkhand	2,674	0.4%	Mineral-rich but lacks urban infrastructure, FDI mostly in mining and steel
10.	Uttar Pradesh	2,071	0.3%	Large population and land area but slower industrial growth

Source: FDI Factsheets published by Department for Promotion of Industry and Internal Trade (DPIIT), GoI

**Table 4: Top Ten FDI Inflow Countries (Comparison of 2023 and 2022)**

Rank	2023 (FDI Inflows)	2022 (FDI Inflows)
1	United States	United States
2	China	China
3	Singapore	Singapore
4	Hong Kong, China	Hong Kong, China
5	Brazil	France
6	Canada	Brazil
7	France	Australia
8	Germany	India
9	Mexico	Canada
10	Spain	Spain

Source: World Investment Report of UNCTAD (United Nations Conference on Trade and Development)

4.2 **Discussion/Analysis:** Indian economy has adopted New Economic Reforms that is Liberalisation, Privatisation and Globalization (LPG) in the year 1991 with the objective to attract more and more private sector in general and foreign direct investment particular. Due to liberalisation in FDI policy, FDI is continuously increasing in India. It has shown positive but fluctuating growth over the years. FDI has increase with 13 per cent Compound Annual Growth Rate (CAGR) over the period of time.

The table 1 represents status of country-wise FDI equity inflow in India from April 2000-01 to 2024- 25 along with their annual growth rate (%). It is clear from the table 1 that Mauritius & Singapore are the top Contributors and contributing approximately 49% due to many reasons and one of the major reasons is tax treaties & regulatory ease. India had favourable Double Taxation Avoidance Agreements (DTAAs) with Mauritius and Singapore. On the other hand, Germany & Cyprus are the moderate contributors, contributing approximately 4 % only.

Now, it is important to understand that what the sectors are attracting highest FDI equity inflows during the span of twenty five years that is from April 2000 to March 2025. The table 2 presents the sector-wise distribution of FDI equity inflows in India. Each sector's percentage indicates its share of total FDI inflows during the span of twenty five years.

The FDI distribution in the table across sectors clearly reflects a balanced combination of services, technology, infrastructure and manufacturing. It may be due to India's ability to offer potential, scale and reforms make it a multi-sector FDI destination.

Region (State/ UT) wise FDI Inflow in India (in US\$ million) describes how foreign direct investment (FDI) is geographically distributed across various states and union territories in India. It is clear from the table 3 that Maharashtra has highest FDI inflow as Mumbai is the financial capital of India which is followed by Karnataka and Uttar Pradesh has lowest FDI inflow due to many factors.

India's FDI is highly regionally concentrated with Maharashtra, Karnataka, Gujarat, and Delhi together accounting for over 30% of total FDI inflows. But in some regions, FDI inflow is very less. Such disparities in FDI inflow exist in some regions due to lack of urban infrastructure, industrial ecosystems, sector specialization, and poor status in ease of doing business historically, proximity to markets etc.

Table 4 presents top ten countries attracting Foreign Direct Investment (FDI) in 2022 and 2023, based on the World Investment Report 2024 by UNCTAD. In 2022, India was ranked 8<sup>th</sup> but India dropped its ranked out of the top 10 and reached to 15<sup>th</sup> place in the year 2023, indicating a significant fall in global investor preference which is a matter of serious concern.

## 5.0 Conclusion and Implications

In brief, over the period of time, growth of FDI has taken place Indian economy which is necessary but not sufficient. To make FDI a true engine of economic growth, there is a strong need to analyse challenges which serves as hurdles despite potential of Indian economy. We need to learn lessons from many countries that successfully attract FDI from all over the world. Series of efforts are required in form of ore bilateral treaties (like with Mauritius/Singapore) for stable FDI flows, mandatory technology transfer agreements in FDI deals, joint ventures to ensure local participation and capability building, incentivize FDI in agriculture (for rural development), manufacturing (to create jobs), make India's FDI policy export-oriented, like China's. There is also strong need to frame liberal and effective FDI policy for secondary sector, as it will boost the growth of this sector leading to employment generation and make India manufacturing hub. Through this India can achieve the target of Viksit Bharat @ 2047.

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